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# The Budget in Brief 1998

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***Building Canada  
for the 21st Century***



Strong Economy  
&  
Secure Society

The Honourable Paul Martin, P.C., M.P.  
Minister of Finance

February 24, 1998

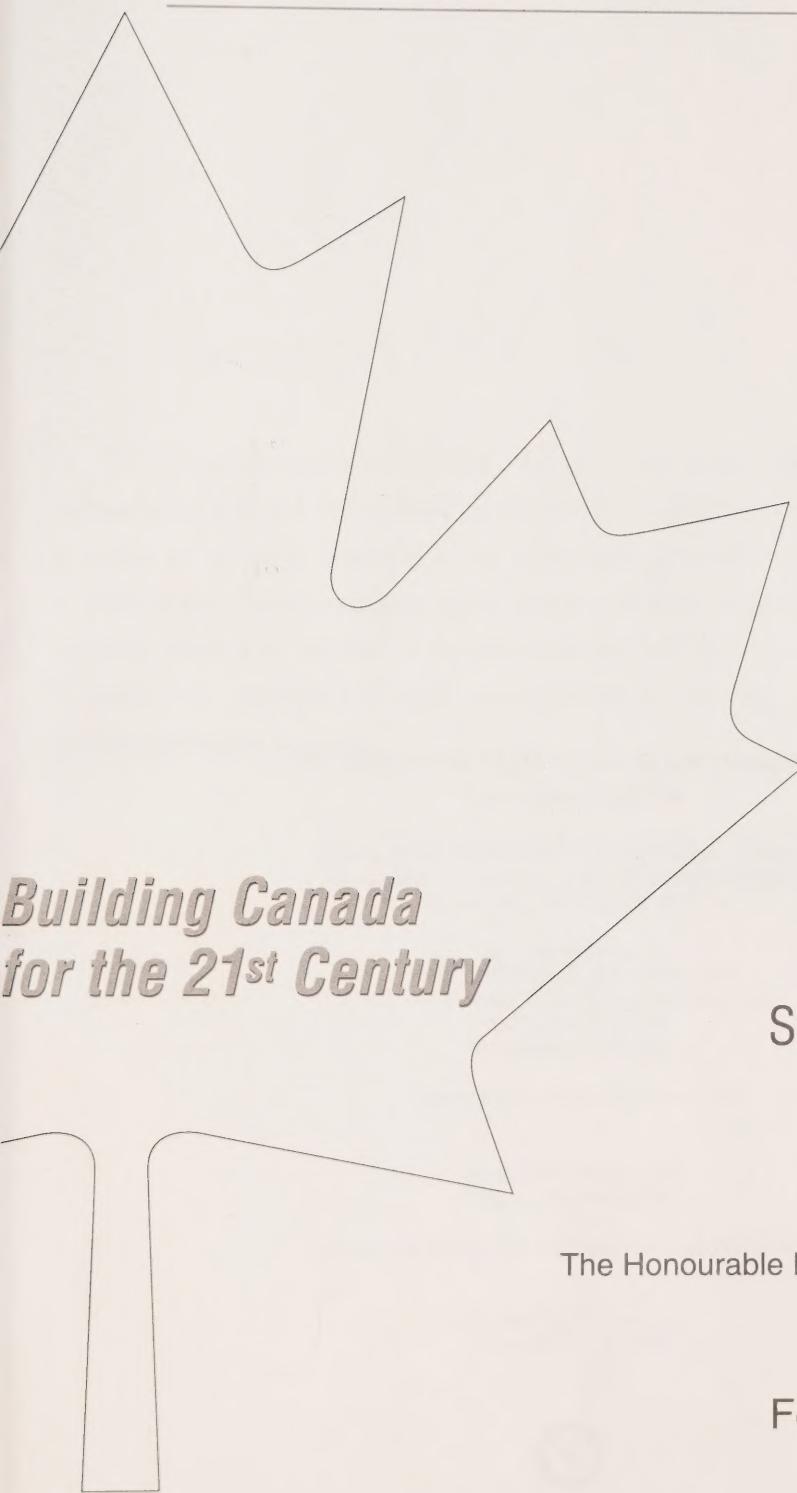
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Department of Finance  
Canada

Ministère des Finances  
Canada

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*“Our goals today remain what they were when Canadians placed their trust in us in 1993: first, to build a country of opportunity – of jobs and growth – one where every Canadian has equal access to the avenues of success that will ensure a better standard of living; and second, to safeguard and strengthen a caring and compassionate society.”*

The Honourable Paul Martin, P.C., M.P.  
Minister of Finance



## *Building Canada for the 21<sup>st</sup> Century –*

# **A Strong Economy and a Secure Society**

The government's key priority is to build a strong economy and a secure society for the 21<sup>st</sup> century. These two goals are mutually reinforcing.

- A strong economy creates employment opportunities and generates the resources needed to maintain and enhance programs that contribute to a secure society.
- A secure society provides Canadians with the means and sense of security necessary to adapt to the changes in a modern economy.

This budget marks the start of a new fiscal era. The government is now planning on the basis of balanced budgets and a steady decline in the debt burden.

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## Highlights of the 1998 Budget

- The budget will be balanced in 1997-98 – the first balanced budget since 1969-70.
  - The budget will also be balanced in 1998-99 and 1999-2000 – the first time in almost 50 years that the budget will be in balance for three consecutive years.
  - Canada's debt burden will be put on a permanent downward track through sustained economic growth and a debt repayment plan.
  - Program spending will continue to decline relative to the size of the economy. It is projected to fall to 11.5 per cent of gross domestic product (GDP) in 1999-2000 – the lowest level in 50 years.
  - The *Canadian Opportunities Strategy* will expand access for all Canadians to the knowledge, skills and learning they will need for jobs that deliver a better standard of living in the 21<sup>st</sup> century.
  - Eighty per cent of the new spending initiatives reflect two of the highest priorities of Canadians – access to knowledge and skills, and increased funding for health and education through increased transfers to the provinces.
  - This budget marks the beginning of general tax relief, primarily for low- and middle-income Canadians.
  - As part of the National Child Benefit System, a further increase in the Canada Child Tax Benefit will be phased in over two years.
  - The child care expense deduction will be enriched, and other targeted tax assistance will be provided to promote a strong economy and secure society.
  - Over the next three years, \$7 billion in tax relief is being provided to Canadians.
-

# Maintaining Sound Economic and Financial Management

*“What I am about to say is something no Canadian government has been able to say for almost 50 years. We will balance the budget next year. We will balance the budget the year after that. And we will balance the budget this year.”*

Upon coming to office in 1993, the government set out a deliberate, measured and responsible plan to eliminate the deficit through program reforms that ensured permanent savings, while allowing Canadians and the economy time to adapt. Budget plans were based on two-year rolling deficit targets, using prudent economic assumptions and including a sizeable Contingency Reserve to handle unforeseen developments. Prudence in budget planning has meant that the Contingency Reserve has not been needed and deficit reduction targets have been consistently bettered in each and every year.

## A Stronger Economy: The Payoff for All Canadians

The government’s strategy is paying off.

Job creation has rebounded strongly. Over the last four years, the number of jobs has grown by over one million. In 1997 alone, 372,000 new jobs – all full time and in the private sector – were created.

In 1993, the unemployment rate stood at 11.2 per cent. It has fallen since then and is now below 9 per cent. While not satisfactory, the trend is clear.

Consumer confidence has rebounded. The economic recovery is now supported by strong domestic demand. Business confidence has hit record levels. Investment is surging.

Stimulated by lower interest rates and renewed confidence, economic growth reached a level in excess of 3.5 per cent last year. This year, continued strength is projected. This would mean the best back-to-back economic performance for Canada in over 10 years, the strongest performance of any Group of Seven (G-7) nation.

## Balancing the Books

In 1993-94, the deficit stood at \$42 billion. In 1997-98, the budget will be balanced for the first time since 1969-70.

The budget will also be balanced for 1998-99 and 1999-2000 – the first time in almost 50 years that the federal government will have balanced its books for three years in a row.

As a share of GDP, program spending will continue to fall, to 11.5 per cent by 1999-2000, the lowest level in 50 years.

Many industrial countries use financial requirements as the measure of their deficits. By this measure, Canada had a surplus in 1996-97 – the only G-7 country to do so – and will continue to run financial surpluses.

## The Debt Repayment Plan

Canada's remaining fiscal challenge is to significantly lower the government's debt burden – measured as the ratio of net public debt to GDP.

This has already begun to occur. In 1996-97 Canada's debt-to-GDP ratio – what we owe in relation to what we produce – recorded a significant decline for the first time in more than 20 years. It will fall again this year even more. Over the next two years, this improvement will continue, with the ratio projected to fall to about 63 per cent from almost 72 per cent in 1995-96.

**Table 1**

*Summary statement of transactions:  
fiscal outlook with budget measures*

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
(billions of dollars)							
Budgetary revenues	116.0	123.3	130.3	140.9	147.5	151.0	155.0
Program spending	120.0	118.7	112.0	104.8	106.0	104.5	107.0
Operating balance	-4.0	4.6	18.3	36.1	41.5	46.5	48.0
Public debt charges	38.0	42.0	46.9	45.0	41.5	43.5	45.0
Underlying balance	-42.0	-37.5	-28.6	-8.9	0.0	3.0	3.0
Contingency Reserve						3.0	3.0
<b>Budgetary balance</b>	<b>-42.0</b>	<b>-37.5</b>	<b>-28.6</b>	<b>-8.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Net public debt	508.2	545.7	574.3	583.2	583.2	583.2	583.2
Non-budgetary transactions	12.2	11.6	11.4	10.2	12.0	6.0	9.0
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	<b>-29.8</b>	<b>-25.8</b>	<b>-17.2</b>	<b>1.3</b>	<b>12.0</b>	<b>6.0</b>	<b>9.0</b>
Per cent of GDP							
Budgetary revenues	16.0	16.2	16.3	17.2	17.2	16.9	16.7
Program spending	16.6	15.6	14.0	12.8	12.4	11.7	11.5
Operating balance	-0.6	0.6	2.3	4.4	4.8	5.2	5.2
Public debt charges	5.2	5.5	5.9	5.5	4.8	4.9	4.9
Budgetary balance	-5.8	-4.9	-3.6	-1.1	0.0	0.0	0.0
Net public debt	70.2	71.6	71.9	71.1	68.1	65.4	62.9
Financial requirements/surplus	-4.1	-3.4	-2.2	0.2	1.4	0.7	1.0

The government is committed to keeping the debt burden going down – steadily, permanently, irrevocably. This will be done through a two-track strategy: the government will continue to follow policies that will pay off in better economic growth, and it will bring down the absolute level of debt itself through a debt repayment plan.

This plan is based on three key elements:

- The government will continue, as before, to present two-year fiscal plans based on prudent economic planning assumptions that are consistently more cautious than private sector forecasts. The current plan commits to back-to-back balanced budgets in 1998-99 and 1999-2000.
- The fiscal plan will continue to include a Contingency Reserve of \$3 billion in each year to handle unforeseen developments.

- If, as in each of the last three years, the Contingency Reserve is not needed, it will go directly to paying down the debt.

This will ensure that the debt-to-GDP ratio is put on a permanent downward track.

The commitment to balanced budgets in both 1998-99 and 1999-2000 also means that there will be ongoing financial surpluses and a steady repayment of the federal government's market debt – the debt it had to borrow on financial markets. So far this year, the government has paid down almost \$13 billion of its market debt.

## Preserving the Gains From Low Inflation

One of the cornerstones of sound economic and financial management is controlling the rate of inflation. The government and the Bank of Canada have agreed to extend the current inflation control targets, which keep inflation within a range of 1 per cent to 3 per cent, until the end of 2001. This will help to keep Canada's inflation rate among the lowest in the world, which in turn will help to maintain Canada's low interest rates.

## Summary of Spending and Tax Actions

Table 2 outlines the cumulative fiscal impact (1997-98 to 2000-01) of the spending and tax actions since the 1997 budget.

Over the four years 1997-98 to 2000-01, the net fiscal impact of the new investments and tax relief amounts to \$18.1 billion. Of this amount, \$10.9 billion represents spending initiatives. Most of the increased spending is for the *Canadian Opportunities Strategy* (\$4.7 billion or 43 per cent) and for an increase in the Canada Health and Social Transfer to the provinces and territories (\$4.1 billion or 38 per cent). As a result, 80 per cent of the spending initiatives reflect two of the highest priorities of Canadians – access to knowledge and skills, and increased funding for health and education through increased transfers to provinces and territories.

The targeted and general tax relief actions in the budget amount to \$7 billion over the next three years.

Under *The Debt Repayment Plan*, the Contingency Reserve, if not required, will be used to pay down the public debt. Over the next three years, up to \$9 billion could be used for this purpose.

**Table 2**  
*Spending and tax initiatives since the 1997 budget*

	1997-98	1998-99	1999-00	2000-01	Cumulative total
(millions of dollars)					
<b>Spending Initiatives</b>					
The Canadian Opportunities Strategy					
Canada Millennium Scholarships	2500				2500
Other initiatives	55	530	725	850	2160
Building a Secure Society					
Increased CHST cash transfers	200	900	1500	1500	4100
Other initiatives	480	466	491	461	1898
Other "Securing our Future Together"	3	85	85	83	256
Total	3238	1981	2801	2894	10914
<b>Targeted and general tax relief</b>					
The Canadian Opportunities Strategy					
	120	360	380	860	
Building a secure society	130	610	1065	1805	
General tax relief	880	1445	1680	4005	
Tax Fairness Measures	-5	-25	30	0	
Actions before budget	235	395	-70	-70	490
Total	235	1520	2320	3085	7160
<b>Total spending and tax initiatives</b>	3473	3501	5121	5979	18074
<b>The Debt Repayment Plan: up to (Assuming that Contingency Reserve not required)</b>		3000	3000	3000	9000



# The Canadian Opportunities Strategy

*“For 200 years in Canada, prosperity and knowledge have gone hand in hand. However, let us understand the true nature of the dynamic at play. As a society, we are not educated because we are prosperous. We are prosperous because we have extended the frontiers of education.”*

The key to jobs and growth in the years ahead is knowledge and skills. If Canadians are to enjoy prosperity and a high standard of living in the next century, they must be prepared for the jobs of tomorrow. That is why there can be no wiser investment in the future than investments in knowledge and skills. Preparing Canadians for the 21st century is the goal.

Both the federal and provincial governments have long-established roles in enhancing equality of opportunity for Canadians by assisting those who face financial barriers to learning. The federal role goes back to the post-war years when assistance was provided to veterans so they could go on to post-secondary education. It has developed much since then.

## **Creating Opportunities for Canadians**

This budget proposes a comprehensive *Canadian Opportunities Strategy* to expand access to the knowledge and skills Canadians will need for jobs that deliver a better standard of living in the 21<sup>st</sup> century. It builds on numerous actions taken in the 1996 and 1997 budgets to support Canadians in the acquisition of knowledge and skills.

The *Canadian Opportunities Strategy* acts on seven fronts to:

- promote access to post-secondary education by helping students in financial need cope with rising costs;
- increase assistance for advanced research and graduate students;
- help individuals repaying student loans – especially those in financial hardship;
- help Canadians upgrade their skills throughout their working lives;
- help families save for their children's education;
- encourage employers to hire young Canadians and help young people make the transition to work; and
- help bring the benefits of information technology into more classrooms and communities across Canada.

## **Financial Assistance for Students**

### **Canada Millennium Scholarships**

To improve access to post-secondary education, the Prime Minister announced in September 1997 that a new arm's-length foundation would be created to provide Millennium Scholarships for thousands of Canadians. This budget provides further details.

- Canada Millennium Scholarships will be awarded to more than 100,000 full- and part-time students each year over 10 years through an initial endowment of \$2.5 billion. This constitutes the single largest investment ever made by a federal government to support access to post-secondary education for all Canadians.

- Canada Millennium Scholarships will be awarded to individuals who need help in financing their studies and demonstrate merit. For full-time students, scholarships will average \$3,000 a year; part-time students will also be eligible.
- Individuals can receive up to \$15,000 over a maximum of four academic years of study towards undergraduate degrees, diplomas or certificates. This could reduce the debt load that many recipients would otherwise incur by half.
- Awards will help recipients of scholarships to study away from home, particularly outside their province, and support limited terms of study outside Canada.
- Canadians of all ages, studying full time or part time in publicly funded universities, community colleges, vocational and technical institutes, and CEGEPs will be eligible.
- The Canada Millennium Scholarship Foundation will be created as an arm's-length body to manage the endowment and to award scholarships.
- Once established, the Foundation will consult closely with provincial governments and the post-secondary education community. The goal will be: to award scholarships by the Foundation to individuals in a manner that avoids duplication in any province; to build on existing provincial needs assessment processes; to complement existing provincial programs; and, most importantly, to significantly increase access to post-secondary education everywhere in Canada for low- and middle-income students.
- The Foundation will have the authority, subject to mutually agreed needs, merit and mobility criteria, to contract with appropriate provincial authorities for the selection of those recipients in a province to whom the Foundation will award Canada Millennium Scholarships.

## **Canada Study Grants**

There are some Canadians whose financial needs and special circumstances cannot be fully met through scholarships and student loans – including students with dependants, students with disabilities and those with very limited income. Currently, the federal government provides \$45 million in grants under the Canada Student Loans Program to part-time students in financial need, students with disabilities and women pursuing doctoral studies.

- To complement other measures in this budget that improve access and affordability, new grants of up to \$3,000 a year will be made available to over 25,000 students in financial need who have children or other dependants. These grants will help them whether they pursue their studies full time or on a part-time basis.

## **Support for Advanced Research and Graduate Students**

In the 1997 budget, the government provided \$800 million to create the Canada Foundation for Innovation to strengthen research infrastructure at universities and colleges, in research hospitals and not-for-profit research institutions in the areas of health, environment, science and engineering. This year the government is providing new support for researchers themselves.

- Effective in 1998-99, the government will increase financial support to the three granting councils – the Natural Sciences and Engineering Research Council, the Medical Research Council and the Social Sciences and Humanities Research Council – to provide research grants, scholarships and fellowships for advanced research and graduate students. By 2000-01, the granting councils will have received more than \$400 million in additional resources and their budgets will be at their highest level ever.

## **Helping Manage Student Debt**

This budget proposes measures that will help all students in repaying their student loans, as well as special measures to assist individuals who are having financial difficulty repaying their loans.

## **Tax Relief for Interest on Student Loans**

- For the first time, all students will get tax relief for interest payments on their student loans. Effective this year, individuals will receive a 17-per-cent federal tax credit on payments of the interest portion of federal and provincial student loans.

## Improvements to the Canada Student Loans Program

- **Interest relief:** Effective April 1998, changes will be made so that a person can earn more and still be eligible for interest relief. This will be done by raising the income thresholds used to qualify for interest relief by 9 per cent. Then, beginning in 1999, partial interest relief will be available further up the income scale for graduates facing financial difficulties. These measures will assist about 100,000 more individuals.
- **Repayment period extension:** For individuals who have used 30 months of interest relief, the lending institution will be asked to extend the loan repayment period from 10 to 15 years. At current interest rates, this will lower monthly payments by nearly 25 per cent.
- **Extension of interest relief:** If, after extending the repayment period, an individual remains in financial difficulty, interest relief will be extended from 30 months to up to 54 months during the five years after leaving school.
- **Debt reduction:** For the minority of individuals who remain in financial difficulty after these relief measures, effective this year, the government will reduce the loan principal if annual payments exceed, on average, 15 per cent of the individual's income. The maximum assistance will be \$10,000 or 50 per cent of the loan, whichever is less. To qualify, five years must have passed since the completion of studies and the individual must have exhausted interest relief.
- **Performance and accountability:** In order to ensure that Canada Student Loans continue to provide as much assistance as they can to those who need it, the government is taking steps to ensure that both educational institutions and students use the program as it is intended. The federal government will also work with the provinces that participate in the Canada Student Loans Program to better co-ordinate federal and provincial student financial assistance and move toward a single loan product.

## Helping Canadians Upgrade Their Skills

### Tax-Free RRSP Withdrawals for Lifelong Learning

To keep their job or get a new one, many Canadians who are already in the workforce want to take time away from work to upgrade their skills through full-time study. Yet many do not have reasonable access to the financial resources this requires.

- To meet this challenge, effective January 1, 1999, Canadians will be able to make tax-free withdrawals from their registered retirement savings plans (RRSPs) to support full-time education and training of at least three months during the year. Withdrawals will be repayable to the individual's RRSP in equal instalments over a 10-year period.
- Students with disabilities using RRSPs for lifelong learning will be exempt from the requirement that their studies be on a full-time basis.

There are few things more critical to ensuring an adequate income in retirement than ensuring a good income when working. Providing opportunity to improve skills is an important way to make sure that happens.

### Tax Relief for Part-Time Students

The government provides assistance to full-time post-secondary students, yet many Canadians pursue learning on a part-time basis.

- Therefore, for the first time, beginning in 1998, about 250,000 part-time students enrolled in eligible post-secondary programs will be able to claim a portion of the education tax credit.
- Also, for the first time, beginning in 1998, about 50,000 part-time students with dependants will be able to deduct child care expenses.

As a result of these two measures, the tax savings for a typical part-time student with two young children could more than triple – from about \$300 to almost \$1,000 per year.

## Encouraging Families to Save for Education

### The Canada Education Savings Grant

One way the government assists Canadians in saving for their children's education is through registered education savings plans (RESPs). Money placed in these plans grows tax free until the child is ready for post-secondary education. Virtually all full-time post-secondary education is eligible.

The two previous budgets included measures to make RESPs more attractive: the annual contribution limits were raised from \$1,500 to \$4,000 and the lifetime limit from \$31,500 to \$42,000; and RESPs were made more flexible by allowing contributors to transfer RESP income into their RRSPs if the child does not pursue higher education.

The government will now invest alongside parents who save for their children's education.

- Effective January 1, 1998 the government will provide a *Canada Education Savings Grant* that gives parents and others even greater incentive to save through RESPs. The grant will be 20 per cent on the first \$2,000 in annual contributions for children up to age 18. The maximum grant will be \$400 per year.
- If the contributor is unable to take advantage of the full *Canada Education Savings Grant* in one year, grant contribution room can be carried forward to future years up to an annual contribution of \$4,000 per child.

## Supporting Youth Employment

Although the majority of Canada's youth are well equipped to participate in the economy, unemployment among Canada's young people remains significantly higher than for other Canadians.

To help address this problem, the government launched a Youth Employment Strategy in February last year. As part of that strategy, more than 120,000 career summer placements and over 50,000 internships are being created over two years.

## **Encouraging Employers to Hire Young Canadians**

While governments have a role to play in helping to tackle youth unemployment, they cannot solve this serious problem alone. Many private sector employers are already responding to the youth unemployment challenge by providing opportunities for young Canadians.

- To encourage employers to hire more young Canadians, the budget proposes to give employers an employment insurance (EI) premium holiday for additional young Canadians hired in 1999 and 2000.

## **Youth at Risk**

Youth Service Canada is currently helping over 5,000 unemployed young Canadians get work experience in community projects. One year after completing their Youth Service Canada work experience, 85 per cent of participants had found work or returned to school.

- The government will more than double the resources devoted to youth at risk in order to assist those, particularly between the ages of 20 and 24, who have not completed high school. Wage subsidies of up to \$10,000 will be provided to give young Canadians the kind of work experience that is key to long-term employment.

## **Connecting Canadians to Information and Knowledge**

Canadians need to make the best use of the opportunities created by information technology and networks.

- The budget provides an additional \$205 million over three years to expand and extend SchoolNet and the Community Access Program. Through these programs, the federal government will work with provinces and the private sector to put computers in more classrooms and to create 5,000 Internet access sites in urban neighbourhoods, in addition to the 5,000 sites already being put in place in rural Canada.
- In addition, the government will provide \$55 million this year to the Canadian Network for the Advancement of Research, Industry and Education (CANARIE) to support the development of high speed communications networks.

## The Canadian Opportunities Strategy: What It Means to Canadians

The *Canadian Opportunities Strategy* provides the tools that will help Canadians acquire the knowledge and skills that will prepare them for jobs that deliver a higher standard of living in the 21<sup>st</sup> century.

- For children, it means bringing them in touch with the information age through SchoolNet.
- For post-secondary students, particularly those from low- and middle-income families, it means access and opportunity through scholarships, study grants and tax relief.
- For graduate students and researchers, it means increased support through the granting councils.
- For individuals coping with student loan debt, it means tax relief on interest payments and additional loan relief for those in financial difficulty.
- For youth facing difficulty in finding a job, it means work experience, supported by wage subsidies and services, as well as an EI premium holiday to employers to hire more young Canadians.
- For adults seeking to renew their labour market skills – whether through university, community colleges or vocational and technical institutes – it means the opportunity to draw on their RRSPs through tax-free withdrawals, and to benefit from tax relief for part-time study.
- For parents and grandparents, it means a *Canada Education Savings Grant* that will make RESPs the best way to save for a child's future education.
- For communities and schools across Canada, it means connecting them to the knowledge society by expanding access to the Internet.



# **Building a Secure Society**

*“... we have just been discussing the role of education in assuring equality of opportunity. But let us be very clear. The capacity to learn does not begin in school. It is dependent on the caring and nurturing provided the smallest infant. The fact is, equality of opportunity means a good start in life.”*

This budget provides funding for initiatives announced over the past year, including increased health and social transfers to the provinces; renewal of Canada's blood system in partnership with the provinces; a new partnership with aboriginal peoples; implementation of the international landmines treaty; and increased support for Canadian culture. The budget also proposes new initiatives to help build a secure society.

## **Support for Families With Children**

### **Building a National Child Benefit System**

- In the 1997 budget, the government allocated \$850 million through the new Canada Child Tax Benefit which will be fully in place by July of this year – increasing support to over one million children and their families. In this budget, as part of the National Child Benefit System, the government is allocating a further \$850 million to enrich the Canada Child Tax Benefit – \$425 million as of July 1999 and an additional \$425 million as of July 2000. The federal government will announce details of the enrichment after discussions with provincial and territorial partners and Canadians.

### **Helping Families With Child Care Expenses**

- The limit on the child care expense deduction will be increased from \$5,000 to \$7,000 for children under age 7, and from \$3,000 to \$4,000 for children age 7 to 16. This measure will help 65,000 families with children.

### **Helping Individuals Caring for Family Members**

- For Canadians providing care and support for family members who are elderly or disabled, the budget proposes a new caregiver credit that will reduce federal tax by up to \$400. This will benefit about 450,000 caregivers.
- A tax exemption will be provided relating to the goods and services tax and the harmonized sales tax for expenses incurred from providing care to a person who has limited means of self-care.

### **Assisting Persons With Disabilities**

- Existing homeowners will be allowed to take advantage of the Home Buyers' Plan to purchase a more accessible home or a home for a dependant relative with disabilities.
- Occupational therapists and psychologists will be allowed to certify eligibility for the disability tax credit.
- Caregivers will receive tax assistance for training courses related to the care of dependant relatives with disabilities.

- Students with disabilities using RRSPs for lifelong learning will be exempt from the requirement that their studies be on a full-time basis.

## **Improving Canada's Health Care System**

- As a result of the government's improved fiscal performance, the first and most significant initiative it took was to introduce legislation to increase the Canada Health and Social Transfer (CHST) cash floor from \$11 billion to \$12.5 billion, as recommended by the National Forum on Health. The 1998 budget confirms this expenditure which will provide provinces with nearly \$7 billion more in cash from 1997-98 to 2002-03.
- It also confirms resources totalling \$211 million over five years for the National HIV/AIDS Strategy and \$60 million over two years to renew Canada's blood system.
- To promote advanced medical research and graduate study, this budget allocates an additional \$134 million to the Medical Research Council over the next three years.

## **Deducting Health and Dental Premiums for Self-Employed Canadians**

- To improve equity in the treatment of self-employed Canadians, owner-operators of businesses will now be able to deduct premiums for health and dental insurance against their business income.

## **Sustaining the Retirement Income System**

- Last year, the federal government and eight provincial governments agreed on changes that ensure the Canada Pension Plan will be sustained.
- In the months ahead, the government will move on to the next stage in preserving the pension system. Legislation will be introduced to put in place the Seniors Benefit which, in the early years of the next century, will replace the current system of Old Age Security and the Guaranteed Income Supplement. The government has consulted with seniors and other interested groups on the details

of this reform. It has listened very carefully and will give every consideration to the valuable points they have raised concerning the package that was first put forward in 1996.

- To increase the fairness of private tax-assisted saving for retirement, contributions to RRSPs will no longer trigger the alternative minimum tax. This will be of particular benefit to individuals who roll over severance pay into an RRSP or who make use of the liberalization in the rules for the lifetime carry-forward of RRSPs provided in the last two budgets.

## **Strengthening Communities and the Voluntary Sector**

### **Emergency Services Volunteers**

- To support the thousands of Canadian volunteers who provide essential emergency services, the tax-free allowance for volunteer firefighters will be doubled – from \$500 to \$1,000. This allowance will also be extended to all other emergency service volunteers, effective January 1, 1998.
- To expand the technological capacity of the voluntary sector, this budget provides funding for Voluntary Sector Network Support as part of the \$205 million being provided for SchoolNet and the Community Assistance Program.

### **Assisting Rural Canadians**

- As announced in *Securing Our Future Together*, funding of \$20 million over the next four years will be provided to support a multidepartmental Canadian Rural Partnership initiative. Building on a broad range of programs and services already in place to support rural Canadians, this will engage rural communities and examine new ways of delivering information and programs.

### **Supporting Northern Ontario Communities**

- Current funding of \$20 million annually will be maintained after 1998-99 for the Federal Economic Development Initiative for Northern Ontario (FedNor). This puts FedNor funding on an ongoing basis, similar to regional development funding in other parts of the country.

## Building a New Partnership With Aboriginal Peoples

- The budget confirms funding for *Gathering Strength*, the federal response to the Royal Commission on Aboriginal Peoples. A \$350 million fund has been set aside for a *Healing Strategy* to help address the legacy of abuse in residential schools. Another \$126 million has been allocated to new and expanded aboriginal programs.

## Addressing Environmental Challenges

- To address the challenge of climate change, the government is committed to working in collaboration and partnership with provincial governments, business, consumers and environmental groups. The budget provides \$50 million a year over three years for climate change-related initiatives.
- The government will also be consulting widely on the complex issues associated with developing an international emissions trading system, which offers scope to achieve emissions reductions at lower cost and in a more market-oriented way than conventional regulation.
- In addition, as reflected in *Securing Our Future Together*, the budget provides funding of \$34 million annually for the National Research Council's Industrial Research Assistance Program (IRAP) to help small and medium-sized businesses to foster strategic innovation and implement state-of-the-art technologies and approaches for using energy, water and natural resources more efficiently and for preventing pollution.

## Promoting Canadian Culture and Sports

- The Canada Television and Cable Production Fund has been an unqualified success, supporting quality Canadian television programs and some 19,600 full- and part-time jobs across Canada. To maintain the Fund at \$200 million annually, the budget confirms increased funding of \$50 million for 1998-99, and \$100 million for 1999-2000 and 2000-01.

- The budget also confirms funding for a number of initiatives announced earlier this year by the Minister of Canadian Heritage, including increased support for the Canada Council, the Canadian book publishing industry and for Canadian athletes and their coaches.

## **Furthering International Co-operation**

- The budget confirms funding of \$100 million over five years to help meet the goals of the international treaty banning anti-personnel landmines.
- The government will also devote an additional \$90 million for international assistance in 1997-98 and \$50 million the following year for initiatives in the areas of environment, health, youth and governance.

# General Tax Relief for Canadians

*“The tax measures are first steps. Looking ahead, we will build upon them as we can. We will do so with the nation’s economic and social needs very much at the forefront of our consideration. We will do so in a measured and responsible way. Let there be no doubt: as soon as we can afford it, taxes will be further reduced.”*

With the federal government’s books in balance, one of the government’s goals is to reduce taxes. This reduction is part of an overall strategy to achieve the nation’s economic and social objectives. To this end, tax relief has been, and will continue to be, provided on the following basis.

- First, certain critical economic and social priorities cannot wait, as postponing action on them would impose net costs on Canadians. In such cases, targeted tax reductions generate a payoff to the country that far exceeds any revenue loss.
- Second, general tax relief will be provided only when fiscal resources permit. The size of such tax relief, and who gets it, will depend critically on the size of the fiscal dividend.
- Third, the tax system must be fair. This implies that Canadians should pay taxes consistent with their ability to pay and that taxes owed are indeed paid.

Consistent with this framework, all four of the government's previous budgets undertook targeted tax reductions to achieve economic and social objectives by providing assistance to education, children, charities and the disabled. These budgets also improved tax fairness.

This budget builds on that approach. It provides additional targeted tax relief through the *Canadian Opportunities Strategy* and through measures designed to build a more secure society.

## **Personal Income Tax Relief: The First Steps**

This budget also begins the process of general income tax relief, primarily for low- and middle-income Canadians. The budget proposes two measures in this regard.

- As of July 1, the government is raising the amount of income that can be earned tax free by low-income single Canadians by \$500 and by \$1,000 for a family. As a result, 400,000 people will be removed from the tax rolls completely, and federal tax will be reduced for an additional 4.6 million Canadians.
- Also effective July 1, taxpayers earning between \$50,000 and about \$65,000 will see the 3-per-cent general surtax reduced, and 83 per cent of taxpayers – those earning up to about \$50,000 – will see it eliminated in its entirety. Taken together, these two measures will provide tax relief to 14 million Canadians – 90 per cent of all taxpayers.

The general tax relief and targeted tax measures in this budget amount to \$7 billion over the next three years.

# Conclusion

*“If Canadians have accomplished a great financial turnaround, there are greater things still that need to be done. We dare not coast now. We cannot let go.*

*The fact is, in this age of globalization and technological change, we hear constantly about barriers being brought down, about new markets being opened up...*

*... globalization and technological change are a reality. They are not a religion. They are a fact. They are not a faith. We commit a very serious mistake if we ever come to believe that the global economy abroad means there is no role, no responsibility on the part of government to provide opportunity and security at home.*

*In the era of great change, our core programs, our core institutions, our core values are more important than ever. They give Canadians the security and confidence they deserve. They equip the country to succeed ...*

*We must make change work for us – or else we will end up working for it. That frames our challenge ...*

*That is why our goal must be to make Canada, not just a participant in the modern economy, but a world leader. A country which provides its citizens with access to the highest standard of living and the widest scope of opportunities possible.*

*Our responsibility as we go forward is very clear. It is to balance the budget. But it is also to bring forth budgets that are balanced. It is to work to build not simply an economy of growth, but also to safeguard a society that is fair.*

*Our challenge today is to put our values to work in new ways for a new century. It is to turn opportunity for some into opportunity for all.”*

The Honourable Paul Martin, P.C., M.P.  
Minister of Finance  
Budget 1998

# Budget-Related Documents

## **Booklets**

The Budget Speech 1998

The Budget in Brief 1998

The Canadian Opportunities Strategy

## **Pamphlets**

*The Canadian Opportunities Strategy:*  
Canada Millennium Scholarships

*The Canadian Opportunities Strategy:*  
Helping Manage Student Debt

*The Canadian Opportunities Strategy:*  
The Canada Education Savings Grant

*The Canadian Opportunities Strategy:*  
Helping Canadians Upgrade Their Skills

Tax Relief for Canadians

A Balanced Approach to Economic and  
Financial Management

## **Fact sheets**

The 1998 Budget: Overview

Canada's Economic Situation and Prospects

Canada's Fiscal Situation and Outlook

Canada Millennium Scholarships

Building a Secure Society

Tax Relief for Canadians

Youth Employment

## **The Budget Plan 1998**

A technical document, available at a cost of \$26.75 including GST

Information on the budget and other initiatives of the Department of Finance are available on the Internet at:  
<http://www.fin.gc.ca/>







